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Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05
CEA-01 CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05
USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07
PA-01 PRS-01 XMB-02 ARA-10 /127 W
----------112550 191115Z /16

P 190732Z JUL 77
FM AMEMBASSY TUNIS
TO SECSTATE WASHDC PRIORITY 7518
INFO AMEMBASSY ALGIERS PRIORITY
AMEMBASSY BRUSSELS
AMEMBASSY PALERMO
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TRIPOLI
AMEMBASSY LONDON
AMEMBASSY RABAT

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USOECD ALSO FOR EMBASSY

DEPT PASS COMMERCE/CAGNE AND EXIMBANK

E.O.11652: NA
TAGS: ELTN, ENRG, TS, IT, AG
SUBJ: TUNISIAN/ENI AGREEMENT ON ALGERIA TO ITALY GAS PIPELINE

REF: TUNIS 4931 AND TUNIS 4998

1. (BEGIN LIMITED OFFICIAL USE) SUMMARY. TUNIS NEWSPAPERS OF JULY 16 CARRIED OFFICIAL COMMUNIQUE ON SIGNING JULY 15 IN TUNIS OF AGREEMENT BETWEEN GOT AND ENI FOR CONSTRUCTION OF
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NATURAL GAS PIPELINE FROM ALGERIAN BORDER NEAR KASSERINE TO KELIBIA AT EASTERN EXTREMITY OF CAP BON PENINSULA AS KEY ELEMENT IN TRANS-MEDITERRANEAN PIPELINE TO DELIVER ALGERIAN GAS TO ITALY STARTING IN 1981. JULY 16 AND 17 NEWSPAPERS ALSO CARRIED STORIES ON INTERIOR MINISTER TAHAR BELKODJA'S MISSION TO ALGIERS WHICH, WE UNDERSTAND, RELATES NOT ONLY TO SUPPORTING ENI REPRESENTATIVES' NEGOTIATIONS TO MODIFY GAS PURCHASE AGREEMENT WITH

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GOA, BUT ALSO TO POSSIBLE DIRECT GOT PURCHASE OF ADDITIONAL
ALGERIAN GAS. SHARE OF ENI'S GAS TO BE RECEIVED AS TRANSIT FEE
BY GOT NOT YET ANNOUNCED, BUT WE UNDERSTAND IT IS NOT MUCH GREAT-
ER THAN THAT OFFERED BY ENI LAST DECEMBER. OTHER ASPECTS OF
PIPELINE AGREEMENT, INCLUDING FORMULA FOR 100 PERCENT GOT OWNER-
SHIP, APPEAR TO MEET SUBSTANTIALLY ALL GOT DESIRES. AS EXPRESSED
ON OCCASION OF SIGNING, PROJECT VIEWED BY GOT AS IMPORTANT MOVE
TOWARDS CLOSER MAGHREB INTEGRATION WITH EUROPE AND ALSO APPEARS
INDICATIVE OF INCREASED CLOSENESS AND CONFIDENCE IN TUNISIAN-
ALGERIAN RELATIONS. END SUMMARY. (END LIMITED OFFICIAL USE)

2. (BEGIN UNCLASSIFIED) NEW PIPELINE AGREEMENT REPLACING ABOR-
TIVE VERSION OF 1973 WAS SIGNED JULY 16 BY NATIONAL ECONOMY
MINISTER ABDELAZIZ LASRAM FOR THE GOT AND BY CARLO SARCHI,
INTERNAT ONAL DIRECTOR FOR ENI, AND ENZO BARBAGLIA, PRESIDENT OF
ENI'S SNAM SUSIDIARY. AGREEMENT IS TO ENTER INTO EFFECT SIMULTAN-
EOUSLY WITH NEW PURCHASE CONTRACT BETWEEN SNAM AND SONATRACH.
MINISTER LASRAM DECLARED AGREEMENT WAS PROOF OF WILL
OF TUNISIA, ITALY ANDALGERIA TO DEVELOP THEIR RESPECTIVE BILA-
TERAL RELATIONS AND ALSO TO STRENGTHEN ECONOMIC AND POL
INTEGRATION BETWEEN THE MAGHREB AND EUROPE. SARCHI ALSO UNDER-
SCORED POLITICAL AS WELL AS ECOMOMIC CHARACTER OF AGREEMENT WHICH
WILL PERMIT CONSTRUCTION OF 2,500 KILOMETER PIPELINE FROM HASI
R'MEL IN ALGERIA TO SICILY TO TRANSPORT INITIAL 12 BILLION CUBIC
METERS ANNUALLY OF ALGERIAN GAS WHICH COULD INCREASE TO 120 BIL-
LION CUBIC METERS ANNUALLY. TOTAL PIPELINE, WHICH IS TO INTO
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OPERATION IN 1981, WILL COST NEARLY $2.5 BILLION SARCHI SAID.
OFFICIAL COMMUNIQUE SAID THAT
ITALIAN-FINANCED PIPELINE, ONCE COMPLETED, WOULD BECOME GOT
PROPERTY, AND GOT TO RECEIVE UNSPECIFIED PERCENTAGE OF GAS AS
TRANSIT PAYMENT. (END UNCLASSIFIED)

3. (BEGIN LIMITED OFFICIAL USE) WE UNDERSTAND ENI IS LATER TO
ANNOUNCE AMOUNT OF THIS TRANSIT FEE TO TAKEN IN KIND OR CASH
AQUIVALENT. THIS HAD BEEN MAJOR BONE OF CONTENTION IN NEGO-
TIATIONS SINCE LATE LAST YEAR. WE UNDERSTAND THAT FORMULA WILL
BE FOR GOT TO RECEIVE 5.25 PERCENT OF ITALIAN THROUGHPUT
UP TO 12 BILLION CUBIC METERS ANNUALLY (INITIAL THROUGHPUT)
RISING TO 6.0 PERCENT ABOVE 12 BILLION CUBIC METERS AND TO 6.75
PERCENT ABOVE 16 BILLION CUBIC METERS. (WE ARE TOLD THAT ENI'S
PREVIOUS OFFICIAL OFFER WAS ONLY 3.5 PERCENT BUT, IN FACE OF
GOT DEMAND TOR TEN PERCENT, THEY HAD INFORMALLY INDICATED THEY MIGHT
GO TO 4.5 OR 5.0 PERCENT.)

4. WE UNDERSTAND THAT NOT ONLY MINISTER BELKODJA--ACCOMPANIED
BY AIDES AND ETAP PRESIDENT ROUROU, BUT ALSO ENI TEAM HAVE
MOVED INTO ALGIERS FOR NEGOTIATIONS THIS WEEK TO CONVERT PRESENT
LNG PURCHASE CONTRACT(FOR EQUIVALENT OF 8.5 BILLION CUBIC METERS

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ANNUALLY) INTO ONE FOR 12 BILLION CUBIC METERS OF NATURAL GAS. NO PROB-

LEM IS EXPECTED SINCE NET RETURN TO SONATRACH WILL BE INCREASED
UNDER PIPELINE ARRANGEMENTS.

5. WHILE IT WOULD APPEAR THAT TUNISIANS GAVE MOST GROUND IN
FINAL NEGOTIATIONS, THE QUOTE SWEETENER UNQUOTE THAT WAS
EXPECTED FROM GOA MAY WELL MATERIALIZE IN FORM OF GAS(500 MIL-
LION CUBIC METERS IN 1981 RISING TO 1.5 BILLION CUBIC METERS IN
1986) WHICH GOT HOPES TO BUY FROM ALGERIA AT ENI'S PRICE, LESS
A QUOTE POLITICAL REBATE UNQUOTE.

6. ELABORATE CORPORATE AND FINANCIAL STRUCTURE WILL PROVIDE
CONSTRUCTION OF $250 MILLION SECTION OF THE PIPELINE TRANSIT-
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TING TUNISIA BY ITALIAN-CONTROLLED FIRM CREATED FOR THIS JOB
ALONE, FINANCING BY ANOTHER ITALIAN-CONTROLLED COMPANY (INCOR-
PORATED IN ISLE OF JERSEY OR BERMUDA), AND THEN OWNERSHIP AND
OPERATION BY NEW GOT ENTERPRISE (TO BE CAPITALIZED AT
$2.5 MILLION). REPAYMENT TO BE MADE TO ITALIAN FINANCE CAOMPANY
ENTIRELY IN FORM OF PIPELINE SERVIES RENDERED. (THESE CALCU-
LATED AT SOME $12 MILLION ANNUALLY, OVER A 25-YEAR PERIOD OF
AMORTIZATION.)

7. AS WE UNDERSTAND IT, PORTION OF PIPELINE FROM TUNISIAN
COAST TO SICILY WILL BE OWNED ROUGHLY 50 PERCENT EACH BY SONA-
TRACH AND ENI, WITH A SMALL EQUITY FOR SICILIAN REGIONAL AU-
THORITY.

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FM AMEMBASSY TUNIS
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8. THE PIPELINE WILL HAVE IMPACT POLITICALLY AS WELL AS ECONOMICALLY. THE ROUTE OF PIPELINE WILL FACILITATE DEVEL-OPMENT, INCLUDING ENERGY-INTENSIVE INDUSTRY, FOR RELATIVELY POOR INTERIOR AREA OF TUNISIA. IT WILL OFFER EXTENSIVE TEMPORARY EMPLOYMENT OPPORTUNITIES ALL ALONG ITS ROUTE. POLITICAL RELATIONS SHOULD BE STRENGTHENED WITH BOTH ITALY AND ALGERIA. IN PARTICULAR, IF ALGERIA DOES SELL TUNISIA GAS AT DISCOUNT, THIS WILL REFLECT GROWING CONFIDENCE AND INTERDEPEND-DENCE IN THEIR BILATERAL RELATIONSHIP.

9. TUNISIAN OFFICIAL WITH WHOM E/C COUNSELOR SPOKE MADE CLEAR THAT THOSE IN GOT WHO REMAIN SKEPTICAL ABOUT TUNISIAN MISKAR NATURAL GAS PROJECT WILL SEEK TO USE PIPELINE DEVELOPMENTS --PROMISING TO GO FAR TOWARD MEETING DOMESTIC ENERGY NEEDS AT LIMITED OFFICIAL USE

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UNIT COST INITIALLY WELL BELOW THAT FOR MISKAR GAS--AS ARGUMTPOM FOR DEFERRING ACTION ON THIS OFF-SHORE PROJECT IN FAVOR OF LESS CAPITAL INTENSIVE ANE MORE SOCIALLY ORIENTED INVESTMENTS. (END LIMITED OFFICIAL USE).
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Message Attributes

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Control Number: n/a
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
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Disposition Case Number: n/a
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